AMERICANS FOR TaxFairness

SENATOR RON WYDEN'S BILLIONAIRES INCOME TAX: WHY WE NEED IT

- America's 700-plus billionaires saw their wealth increase $1.8 trillion, or 62%, during the first 17 months of the pandemic. That's equivalent to more than half the cost of President Biden's $3.5 trillion ten-year Build Back Better plan, which will benefit most Americans.
- On average, billionaires pay an effective federal income tax rate of just over 8% when the increased value of their stock is counted. By comparison, the average tax rate is about 13% for middle-income households like teachers, nurses and firefighters.
- The richest 25 billionaires in 2018 paid an effective tax rate near zero (0.02%) when calculated as a share of their wealth. All together they paid just $1.9 billion in federal income taxes despite $1.1 trillion in collective fortune.
- Even as a share of *the growth in their wealth*, those 25 billionaires paid a tiny tax rate: just 3.4% on a $400 billion increase in their collective fortune between 2014-18.
- Billionaires pay such low tax rates for two primary reasons:
  - Most of their income comes from the increased value of their investments such as stocks, a business or real estate, rather than a paycheck like most of us, and they don't have to pay taxes on that increased wealth unless they sell the assets. The ultra-rich don't need to sell those assets because they can borrow money at low rates from banks because of all their assets and live tax free.
  - If they do sell their assets they pay a top capital gains tax rate of 20% (plus a 3.8% net investment income tax, NIIT) far below the current 37% (40.8%) top rate they would pay on an equivalent salary. This is why many ultra-rich pay a lower tax rate than people in the middle class.

BILLIONAIRES INCOME TAX: HOW IT WORKS

The Billionaires Income Tax is under development by Senator Ron Wyden, chairman of the Senate Finance Committee, and is supported by President Biden. Wyden has not yet released specific details about his proposal, but it is modeled on a mark-to-market proposal he made in 2019.

These are likely to be the core elements of Wyden's Billionaires Income Tax:
- Billionaires will start paying taxes on their increased wealth each year just like workers pay taxes on their paychecks each year.
- Income from investments will be taxed at the capital gains tax rate, which currently is 20% (plus the 3.8% NIIT rate) but is expected to be at least 25% (28.8%) under the Biden Build Back Better plan if not higher.
- The tax will be assessed each year on tradable assets, such as stocks and derivatives, where the value of the asset is known at the beginning and end of the year and the owner gets a financial statement. For non-tradable assets, such as ownership in a business or real estate holdings, taxes will be deferred until the asset is sold. Interest will be charged for those years that taxes were avoided and the asset increased in value.
- Taxes most likely will be payable over a number of years, if the amount owed is very large.
- The tax will apply only to those taxpayers whose wealth exceeds $1 billion: about 700 households out of the nation's roughly 130 million households, or .000005% of the total.